

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 OMB-01 INT-08 SCEM-02 SCI-06 NSC-10 SS-15

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8525

C O N F I D E N T I A L MANILA 11545

E.O. 11652: GDS

TAGS: ENRG, RP

SUBJECT: GOVERNMENT MOVES TO ACQUIRE CONTROLLING OWNERSHIP OF TWO
U.S. OIL COMPANIES

1. MOBIL MANAGER WALES IN CONVERSATION OCTOBER 10
CONFIRMED OTHER REPORTS EMBASSY HAS RECEIVED THAT
GOP IS SEEKING ACQUIRE 60 PERCENT EQUITY OWNERSHIP OF ESSO,
MOBIL AND BATAAN REFINERY CORPORATION, OWNED JOINTLY
BY TWO COMPANIES. ACCORDING TO WALES, ESSO HAS AGREED
TO PROPOSAL BUT MOBIL HAS COUNTERED WITH OFFER TO
SELL 100 PERCENT EQUITY TO GOP. PREFERENCE OF GOP HOWEVER
IS APPARENTLY TO HAVE UNIFORM 60 PERCENT OWNERSHIP OF TWO
COMPANIES AND REFINERY, PROBABLY REFLECTING DESIRE
TO RETAIN JOINT OWNERSHIP WITH INTERNATIONAL COMPANIES
IN ORDER GAIN BETTER ACCESS TO CRUDE OIL SUPPLIES,
TANKERS AND TECHNICAL EXPERTISE.

2. WALES EXPLAINED MOBIL POSITION AS WISHING TO AVOID
MINORITY HOLDING IN COMPANY OF MAJORITY GOVERNMENT OWNERSHIP
WHICH IS LIKELY TO ENGAGE IN UNECONOMIC, "SOCIALIZED"
PRICING OR PRODUCTION. FURTHERMORE, HE NOTED PROSPECTS
FOR CRUDE OIL SALES AND DOWNSTREAM PROFITABLE OPERATIONS
IN THE PHILIPPINES FOR NEXT 5 YEARS ARE FAR LESS

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ATTRACTIVE THAN ALTERNATIVES AVAILABLE IN MANY OTHER

COUNTRIES.

3. WALES BELIEVES THAT GOP, WHICH NOW OWNS 58 PERCENT OF FILOIL REFINERY CORPORATION (TOTAL PHILIPPINE EQUITY IS 70 PERCENT), HAS DECIDED THAT BATAAN REFINERY OFFERS FAR BETTER EXPANSION POSSIBILITIES, USE OF DEEP-WATER BERTHING FACILITIES AND OTHER ADVANTAGES OVER FILOIL REFINERY. LATTER HAS KNOWN DRAWBACKS IN REGARD TO LOCATION AND LESS EFFICIENT REFINING FACILITIES.

4. WALES SAID THAT DEFENSE SECRETARY ENRILE IS NEGOTIATING ON BEHALF OF GOP ALTHOUGH HANS MENZI, SWISS BUSINESSMAN LONG RESIDENT IN PHILIPPINES AND KNOWN TO BE A CONFIDANT OF PRESIDENT MARCOS, HAS ALSO SERVED AS INTER-MEDIARY. ENRILE IS BOARD CHAIRMAN OF REORGANIZED FILOIL REFINERY CORPORATION AS WELL AS CHAIRMAN OF PHILIPPINE NATIONAL BANK WHOSE SUBSIDIARY, NATIONAL INVESTMENT AND DEVELOPMENT CORPORATION, IS GOVERNMENT SHAREHOLDER IN FILOIL.

5. IN RESPONSE TO QUERIES, WALES WAS VAGUE AS TO PRICE GOVERNMENT WOULD PAY FOR ESSO AND MOBIL SHAREHOLDINGS AND WHAT FINANCIAL ARRANGEMENTS WOULD BE MADE FOR EQUITY TRANSFER. HE INDICATED THESE ARE MATTERS UNDER DISCUSSION. ESSO MANAGER WALLACE UNDERSTOOD TO BE DISCUSSING POSSIBLE TERMS OF NEW ARRANGEMENT WITH HEAD OFFICE IN HOUSTON. MAJOR CURRENT ISSUE, HOWEVER, IS EXTENT OF GOP EQUITY ACQUISITION OF MOBIL. WALES NOTED THAT ANOTHER MAJOR ISSUE WILL BE FUTURE ACCESS TO ASSURED CRUDE OIL SUPPLY. TO EMBASSY'S KNOWLEDGE, PROBLEM OF CRUDE SUPPLY TO FILOIL AFTER GULF CONTRACT EXPIRES DECEMBER 31 HAS NOT YET BEEN RESOLVED, AND WALES WAS DUBIOUS THAT A MAJORITY FILIPINO-OWNED COMPANY COULD GAIN AN ASSURED CRUDE SUPPLY IN CURRENT TIGHT WORLD SITUATION.

6. CALTEX MANAGER JOHNSON INFORMED EMBASSY OCTOBER 2 THAT PRESIDENT MARCOS HAD EARLIER TURNED DOWN A SPECIFIC PROPOSAL BY CALTEX FOR GOP ACQUISITION OF EQUITY IN COMPANY, BUT HE SAID THERE WERE RECENT SIGNS THAT GOP MAY CONFIDENTIAL

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BE INTERESTED IN SUCH ACQUISITION. JOHNSON ALSO HAD IMPRESSION GOP WOULD EVENTUALLY SEEK EXPAND PUBLIC FILIPINO OWNERSHIP OF OIL COMPANIES THROUGH SALE OF GOVERNMENT-HELD SHARES.

7. NEGOTIATIONS BETWEEN COMPANIES AND GOP ARE OBVIOUSLY IN FLUID STATE. EMBASSY WILL MONITOR AND REPORT DEVELOPMENTS.

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